



# **Global Economic Crisis Impacts and Lessons : Asian Countries**

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# Impacts on Asia

## Real GDP Growth

	Year over Year					
	Actual		Projections		Difference from January 2009 WEO projections	
	2007	2008	2009	2010	2009	2010
<b>World</b>	5.2	3.2	-1.3	1.9	-1.8	-1.1
<b>Advanced economies</b>	2.7	0.9	-3.8	0.0	-1.8	-1.1
U.S.	2.0	1.1	-2.8	0.0	-1.2	-1.6
Euro area	2.7	0.9	-4.2	-0.4	-2.2	-0.6
U.K.	3.0	0.7	-4.1	-0.4	-1.3	-0.6
Japan	2.4	-0.6	-6.2	0.5	-3.6	-0.1
Newly industrialized Asian economies (NIAE)	5.7	1.5	-5.6	0.8	-1.7	-2.3
<b>Emerging economies</b>	8.3	6.1	1.6	4.0	-1.7	-1.0
China	13.0	9.0	6.5	7.5	-0.2	-0.5
India	9.3	7.3	4.5	5.6	-0.6	-0.9
ASEAN-5	6.3	4.9	0.0	2.3	-2.7	-1.8

Source: IMF, World Economic Outlook Database, April 2009

Newly Industrialized Asian economies includes Hong Kong, Korea, Singapore, and Taiwan

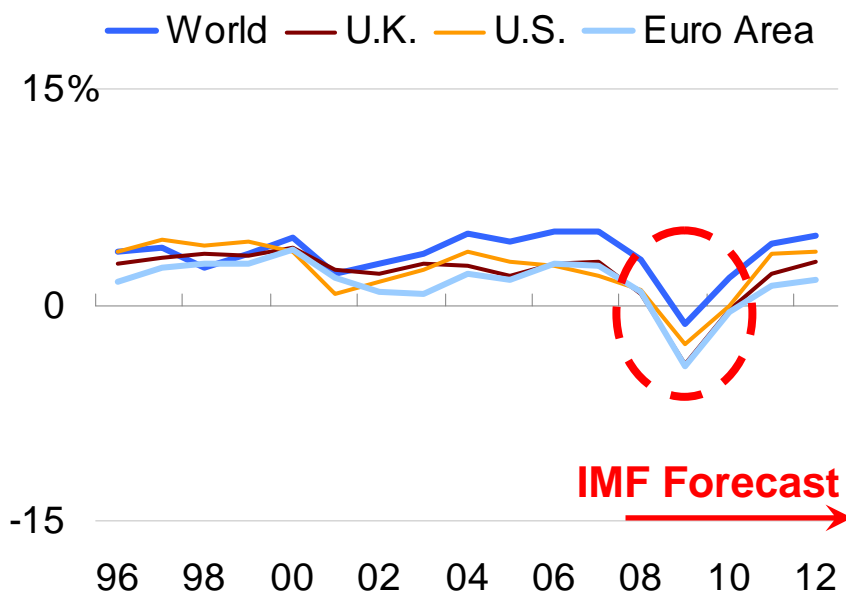
ASEAN-5 includes Indonesia, Philippines, Malaysia, Thailand, and Vietnam

# Impacts on Asia

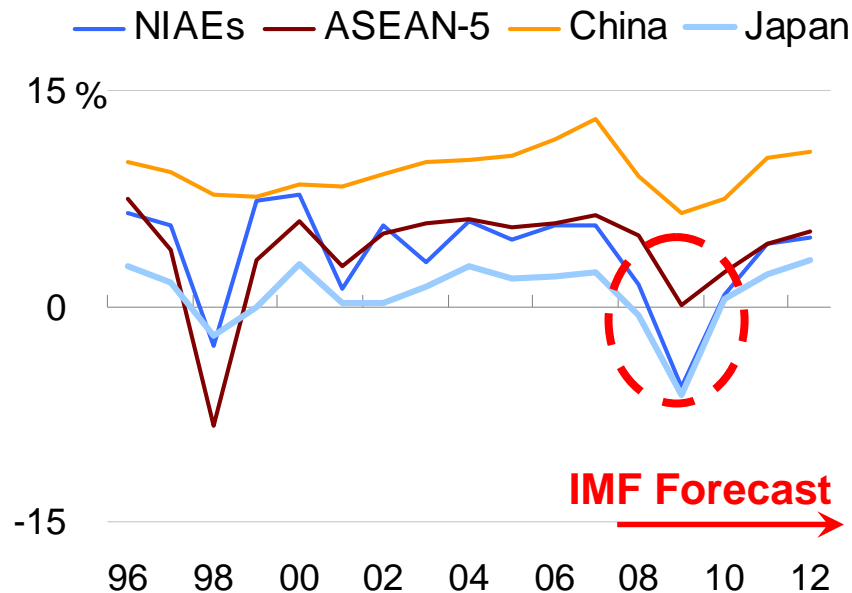
## Real GDP Growth (2)



### Advanced Economies



### Asian Economies



- Real GDP growth of Asian countries is volatile than advanced economies.
- Economic crisis has bigger impact on NIAEs than ASEAN-5.

# Impacts on Asia

## Countries' Real GDP Growth

Country	2006	2007	2008	2009	2010	2011	2012
Japan	2.0	2.4	-0.6	-6.2	0.5	2.2	3.2
China	11.6	13.0	9.0	6.5	7.5	10.2	10.7
India	9.8	9.3	7.3	4.5	5.6	6.9	7.6
Korea	5.2	5.1	2.2	-4.0	1.5	5.3	5.1
Hong Kong	7.0	6.4	2.5	-4.5	0.5	3.8	4.2
Singapore	8.4	7.8	1.1	-10.0	-0.1	4.4	5.3
Taiwan	4.8	5.7	0.1	-7.5	0.0	3.0	4.5
Indonesia	5.5	6.3	6.1	2.5	3.5	4.5	5.0
Malaysia	5.8	6.3	4.6	-3.5	1.3	4.1	5.5
Philippines	5.4	7.2	4.6	--	1.0	3.8	4.5
Thailand	5.2	4.9	2.6	-3.0	1.0	4.0	5.0
Vietnam	8.2	8.5	6.2	3.3	4.0	5.5	6.5

Source: IMF, World Economic Outlook Database, April 2009

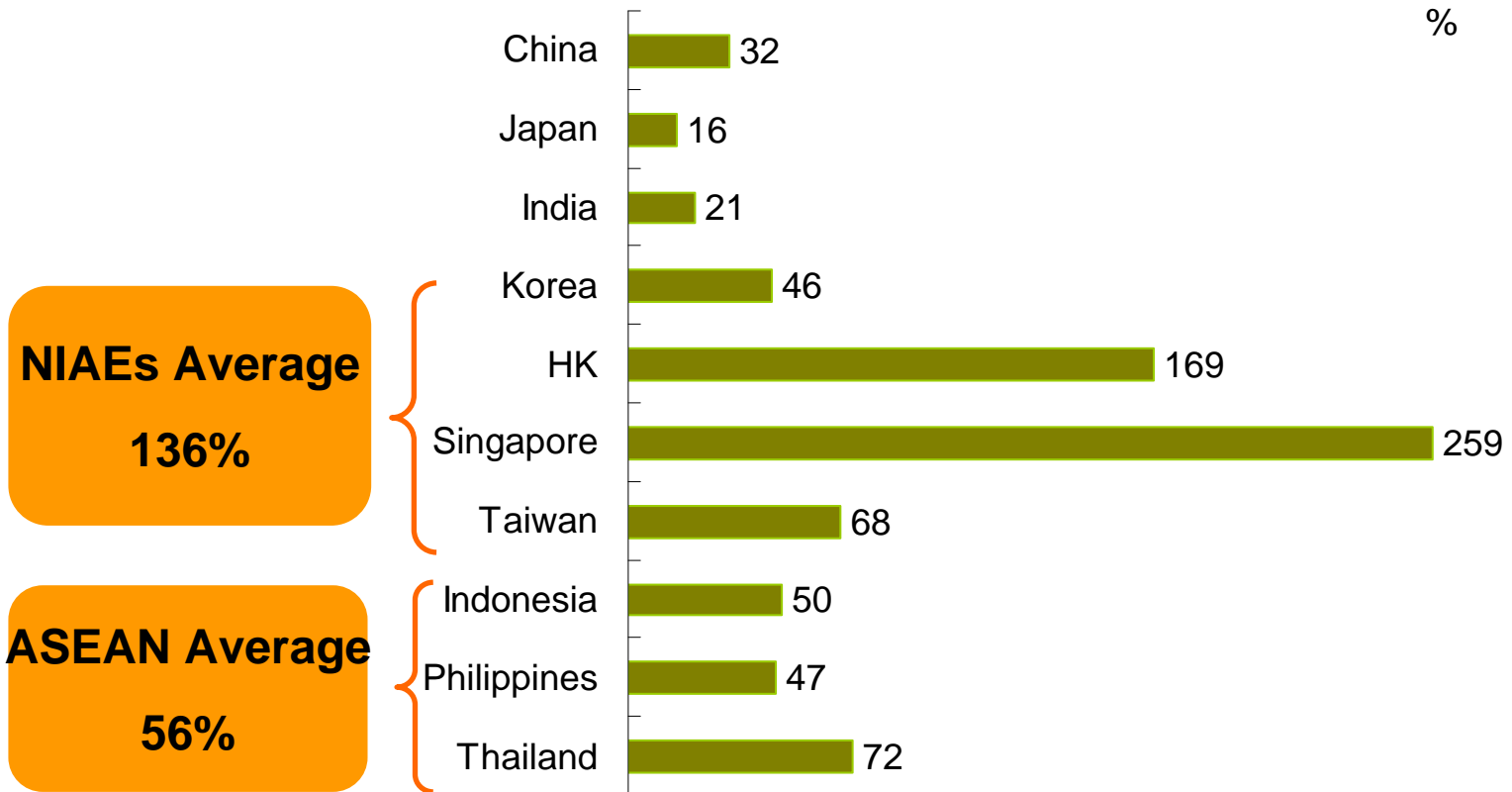
Dark areas are projected by IMF

# Impacts on Asia

## International Trade



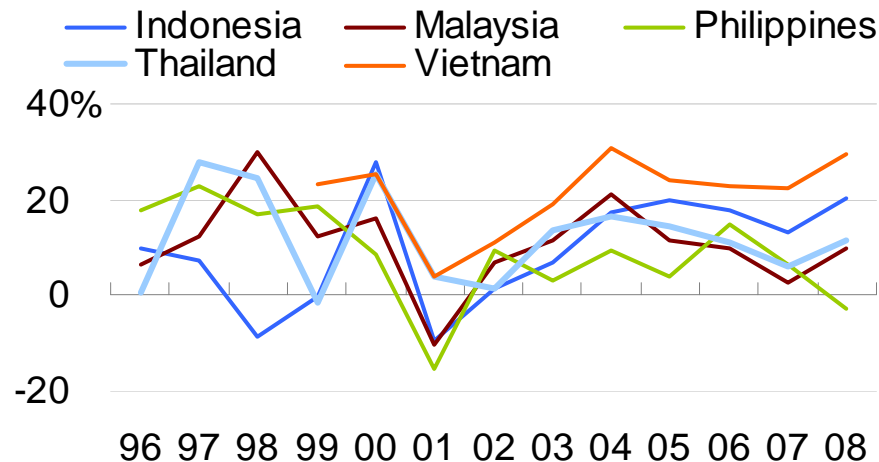
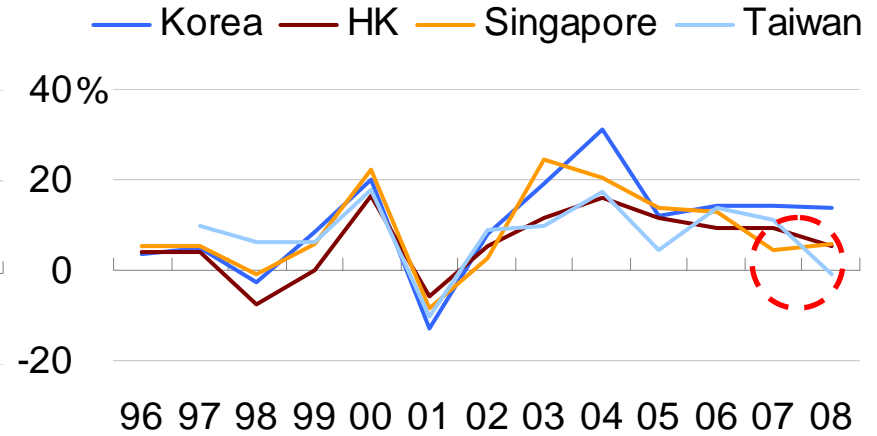
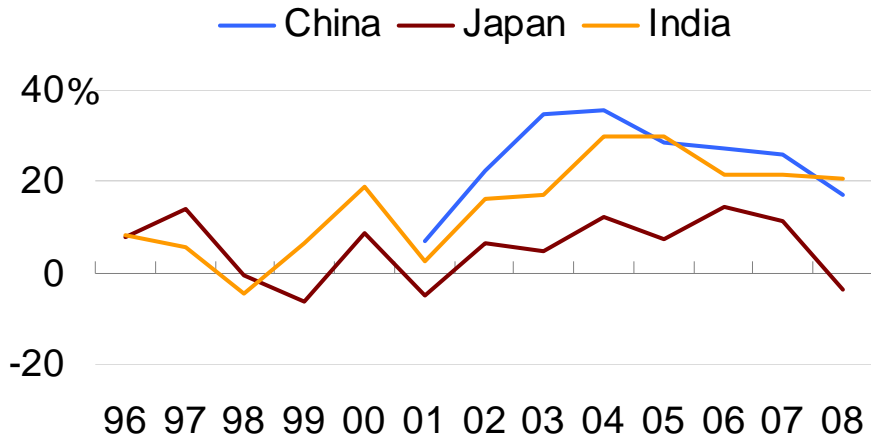
### Export as percentage of GDP



# Impacts on Asia



## Annual Percentage Change in Export

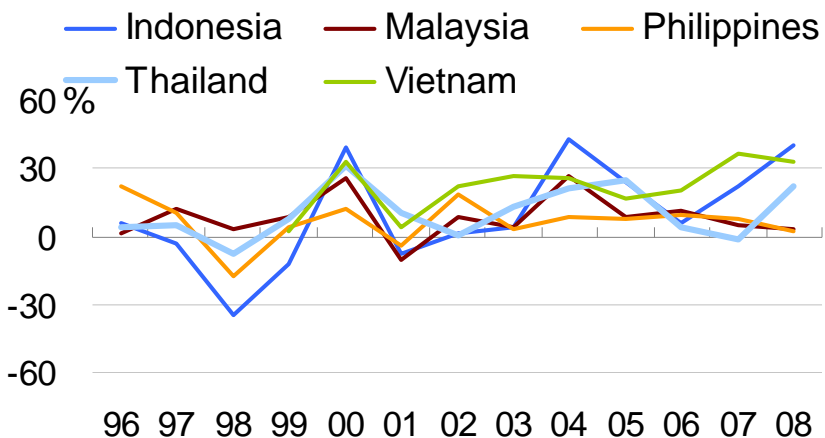
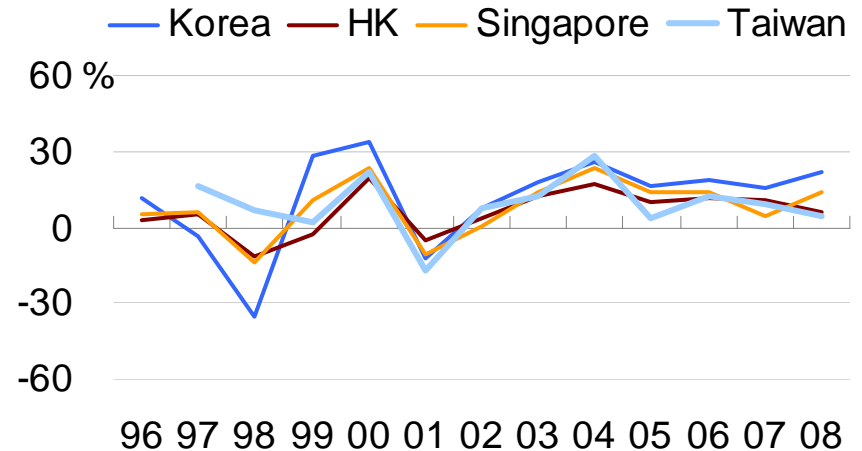
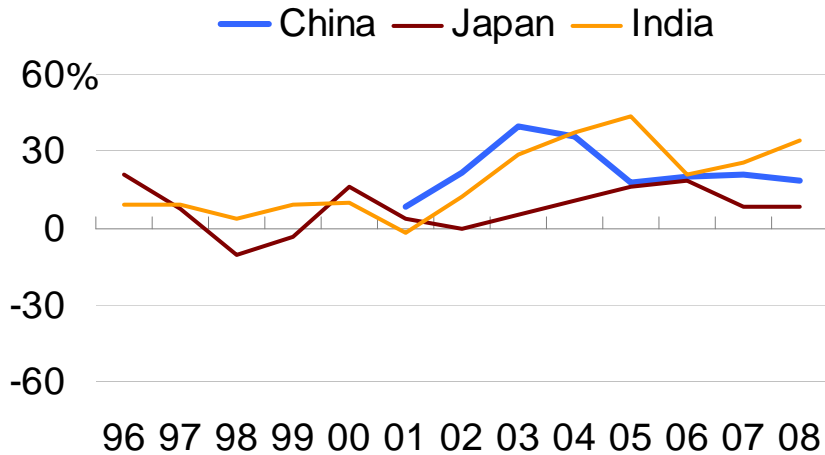


- NIAEs extremely depend on export growth, making them exposed to external influence easily, especially Taiwan this time.
- Export growth in Japan also decreased significantly.

# Impacts on Asia



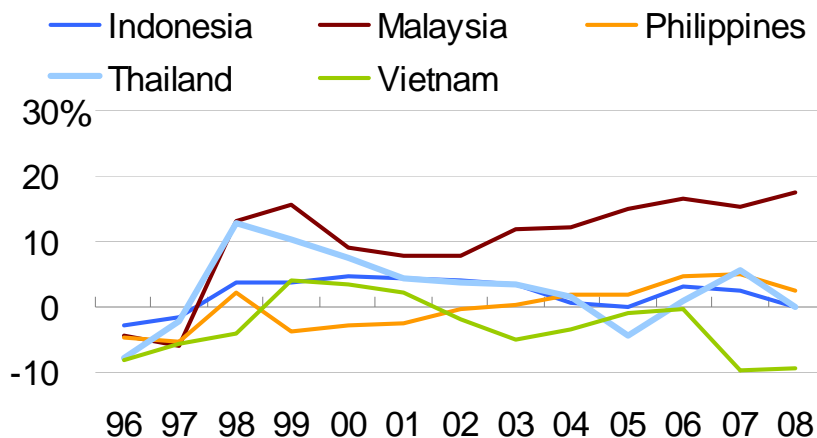
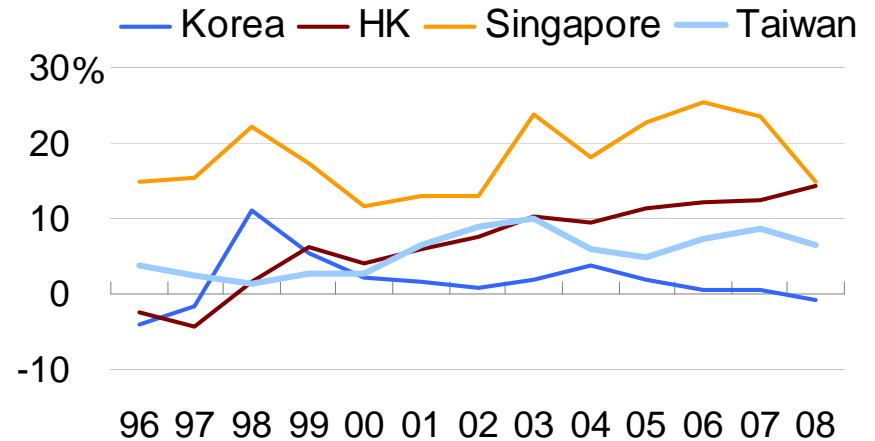
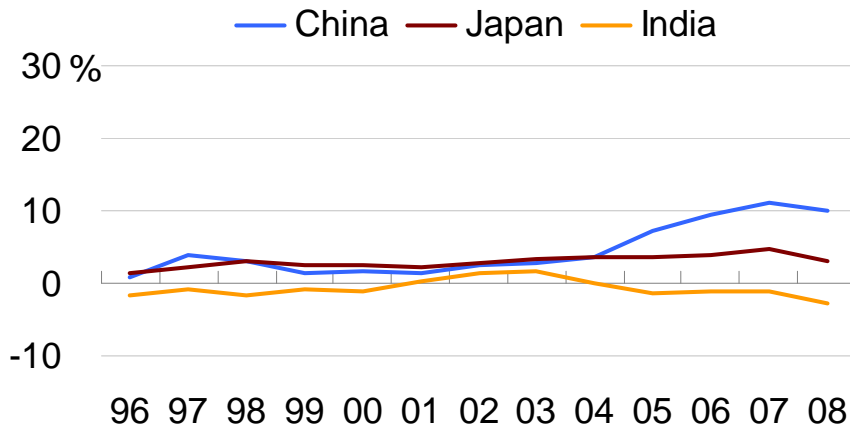
## Annual Percentage Change in Import



- Change in import is not that obvious compared with export.

# Impacts on Asia

## Current Account Balance



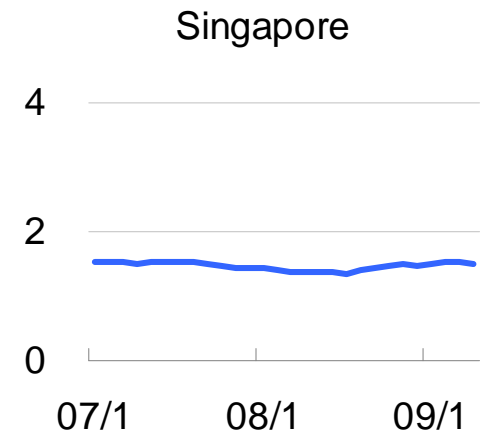
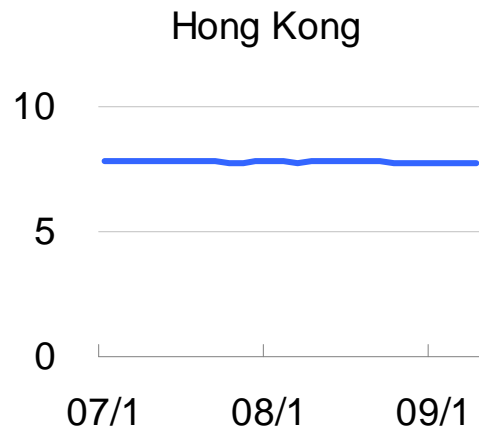
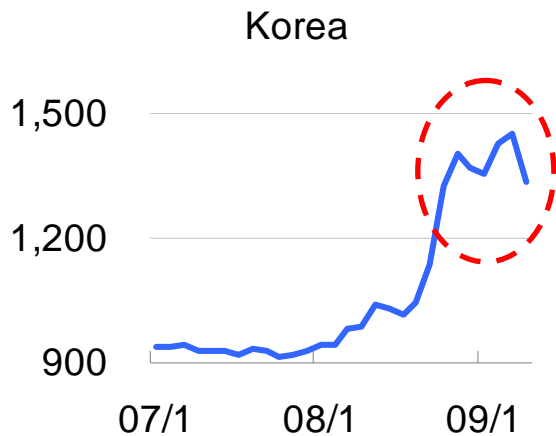
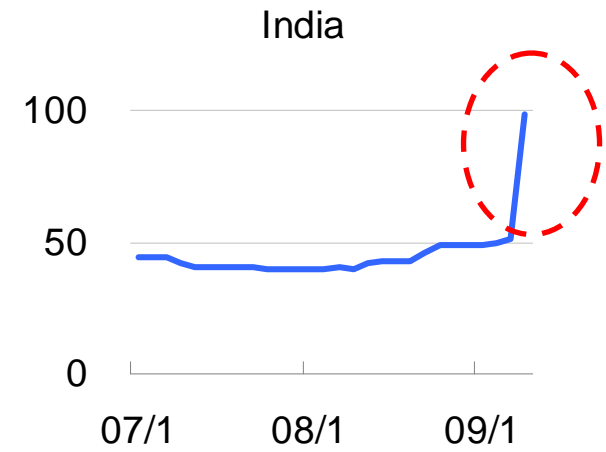
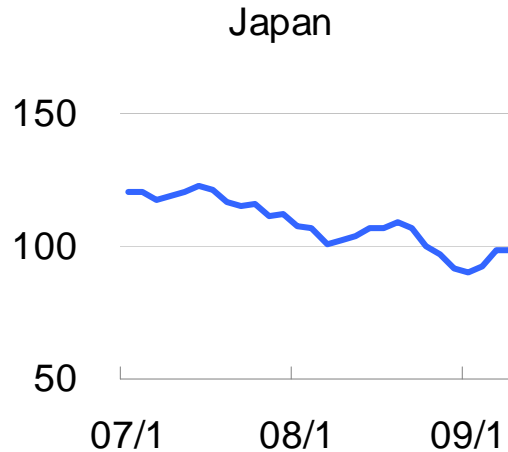
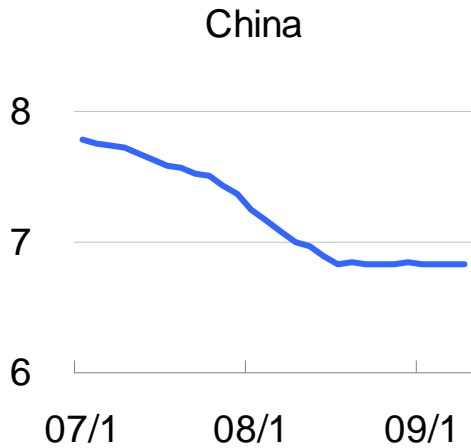
- Current account balance as percent of GDP is declining because of net export reduction.



# Impacts on Asia

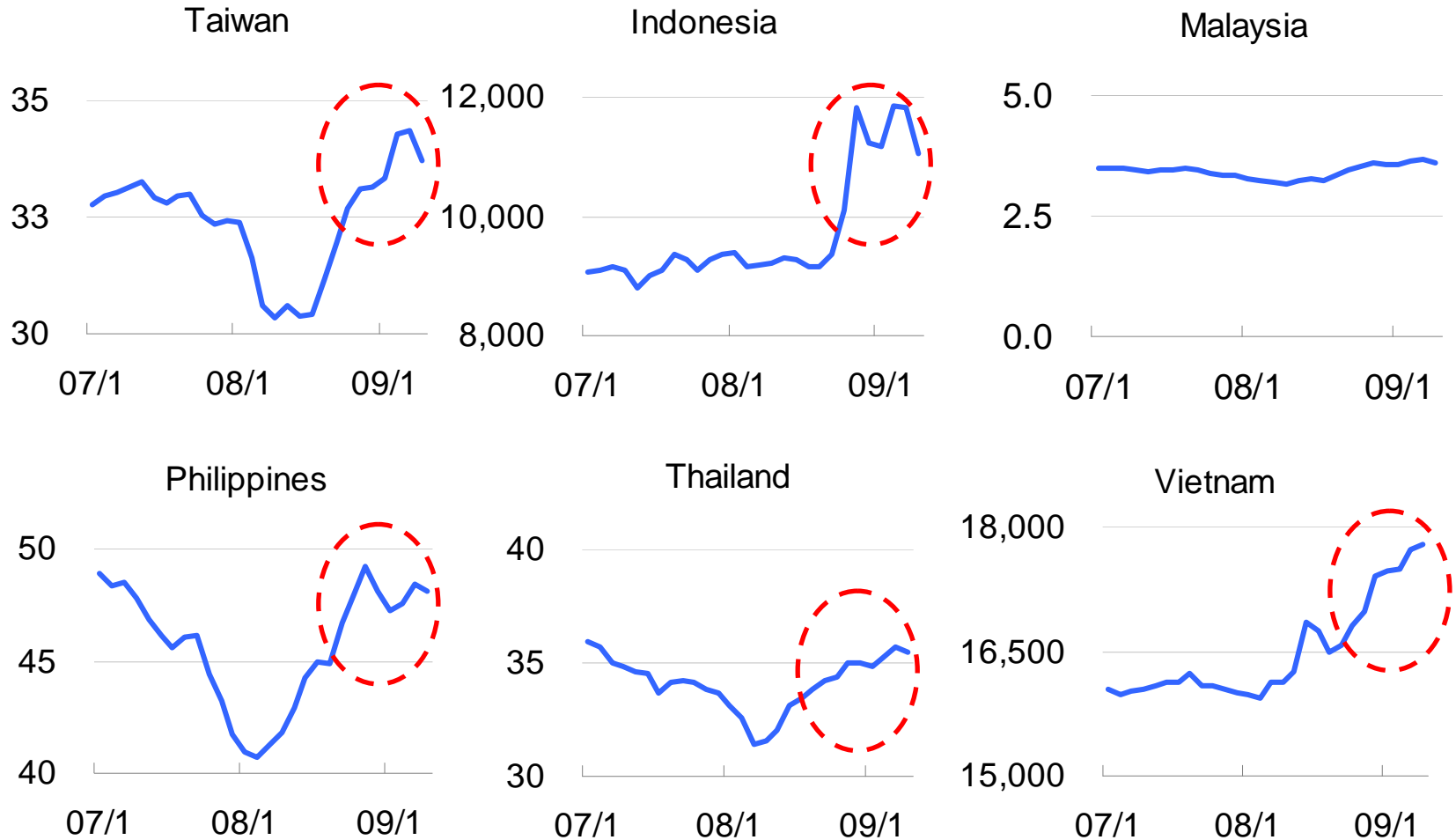


## Exchange Rate (Local Currency/USD)



# Impacts on Asia

## Exchange Rate (2)



# Impacts on Asia

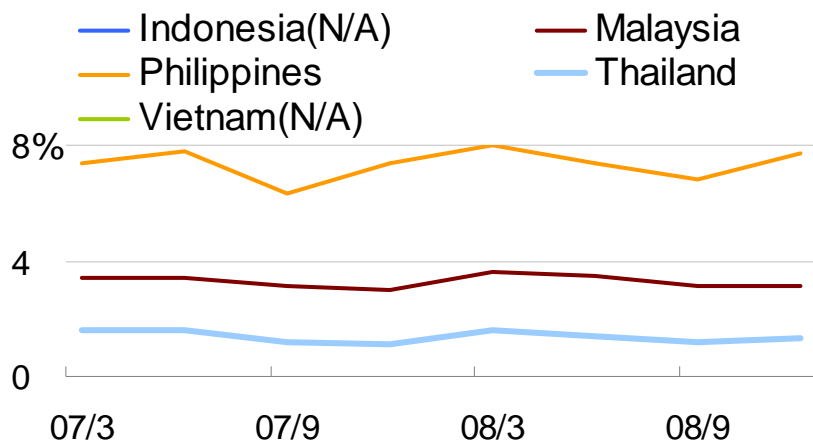
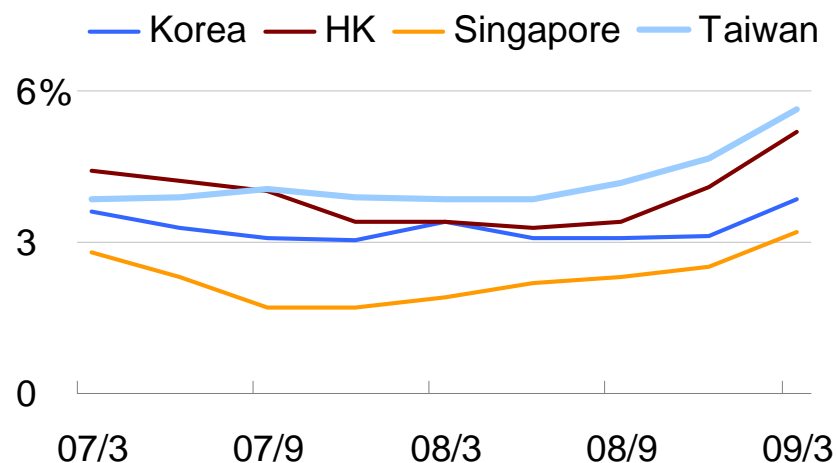
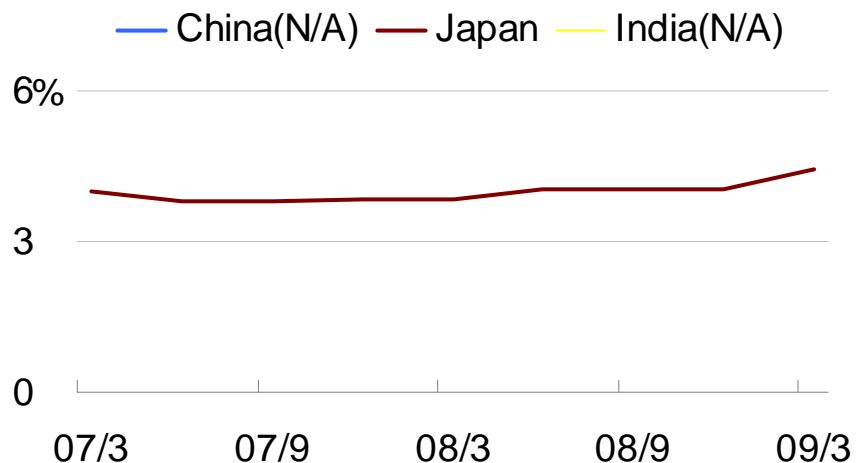
## Exchange Rate (3)



- Appreciated during the period from August 2007 to 2008Q2, when U.S. subprime crisis erupted.
  - ✓ Asia was expected to decouple with the U.S. and Europe due to normal economic condition.
- Depreciated after last fall
  - ✓ Worldwide economic growth slowed.
  - ✓ Expectation of decoupling fell to the ground.
  - ✓ Risk averse behavior drove US dollar and Yen to appreciate.
  - ✓ Some countries made their currency value lower to strengthen export competitiveness.

# Impacts on Asia

## Unemployment Rate



- NIAEs unemployment rate increased more than that in ASEAN countries.

# Impacts on Asia

## Consumer Price

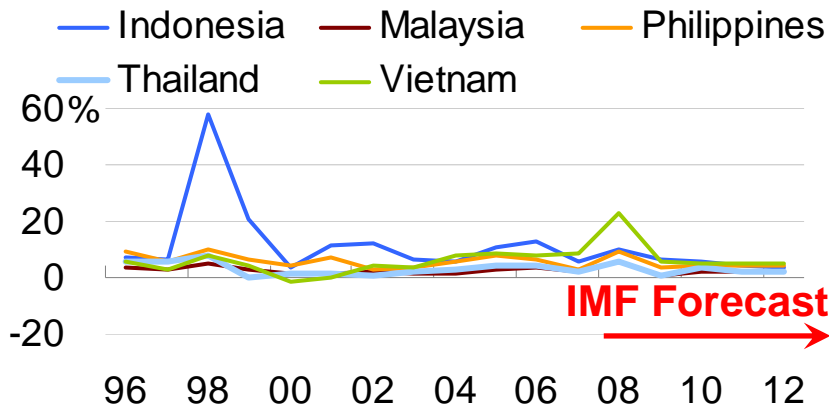
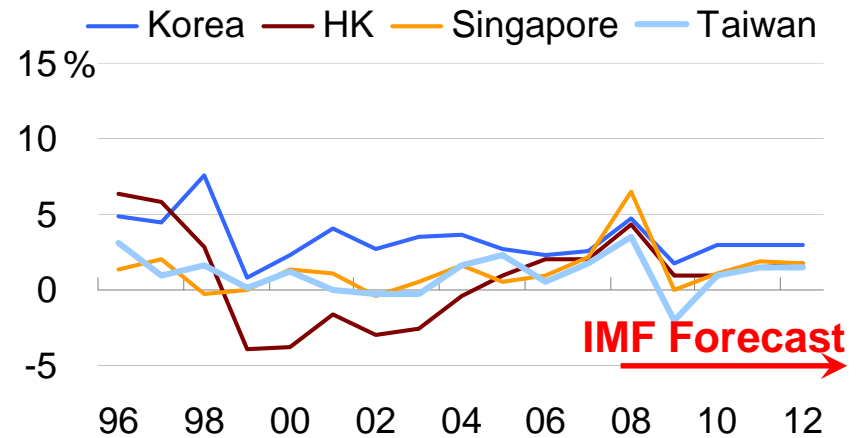
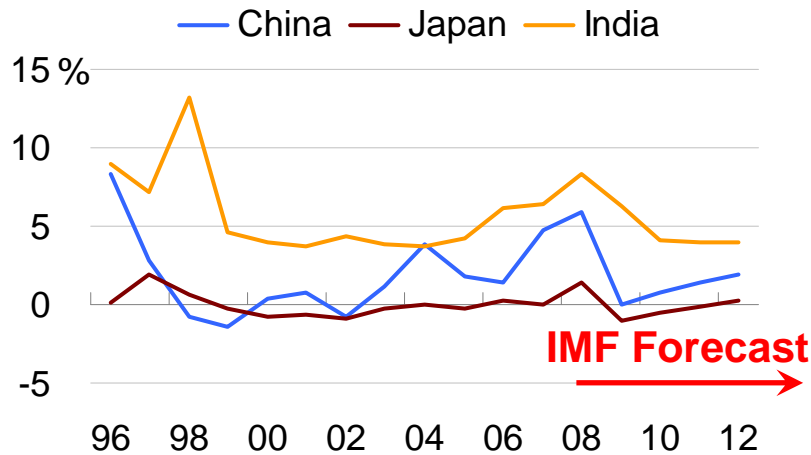
### Annual Percentage Change

Country	2006	2007	2008	2009	2010	2011	2012
Japan	0.3	0.0	1.4	-1.0	-0.6	-0.2	0.2
China	1.5	4.8	5.9	0.1	0.7	1.5	1.9
India	6.2	6.4	8.3	6.3	4.0	4.0	4.0
Korea	2.2	2.5	4.7	1.7	3.0	3.0	3.0
Hong Kong	2.0	2.0	4.3	1.0	1.0	1.5	1.8
Singapore	1.0	2.1	6.5	0.0	1.1	1.9	1.7
Taiwan	0.6	1.8	3.5	-2.0	1.0	1.5	1.5
Indonesia	13.1	6.0	9.8	6.1	5.9	4.2	3.5
Malaysia	3.6	2.0	5.4	0.9	2.5	2.5	2.5
Philippines	6.2	2.8	9.3	3.4	4.5	4.5	4.5
Thailand	4.6	2.2	5.5	0.5	3.4	2.2	2.3
Vietnam	7.5	8.3	23.1	6.0	5.0	5.0	5.0

Source: IMF, World Economic Outlook Database, April 2009  
 Dark areas are projected by IMF

# Impacts on Asia

## Consumer Price (2)



- The disinflation or deflation concern prevailed because of shrinking demand.
- IMF predicted that deflation occurrence is highly possible in Japan.

# impacts on Asia

## financial market influence

### U.S. securities positions in main Asia countries

Unit: billion USD	Securities (include stock, long term government bond, agency bond and corporate bond)	Asset Backed Securities	Agency ABS	Corporate ABS
Japan	1,185	163	121	42
China	1,175	376	369	7
Singapore	156	13	3	10
Taiwan	147	37	36	1
Hong Kong	131	19	9	10
Korea	121	24	21	4

Source : U.S. Treasury Department, 2008/06

# impacts on Asia

## financial market influence (2)

### Losses in financial institutions in Taiwan from financial crisis

- Although loss in financial institutions of Asian countries is not as severe as that in the U.S. and Euro, some industries' net income declined significantly, like insurance companies in Taiwan.

Items Unit: billion NTD		investment amount	unrealized loss		Realized loss	Total loss
			Reserve provisioned	Un-provisioned		
Bank	Subprime related	43.98	10.65	0.03	7.19	17.86
	SIV	16.79	15.58	0.04	1.26	16.89
	Sub-total	60.77	—	—	—	34.17
Insurance	Subprime related	22.90	6.65	0.13	1.30	8.08
	SIV	1.29	0.27	0.00	0.04	0.32
	Sub-total	84.95	33.16	0.21	9.79	42.57

- 0.58 billion in total loss of subprime related products in bank is the same as that in SIV, therefore the total loss equals 34.17 billion.
- Data was recorded through 2008/05.



# impacts on Asia

## financial market influence (3)

### U.S. related derivatives holdings of banks in China in 2008Q3

Bank	Derivative securities (billion USD)					Foreign bond / asset (%)	Reserve provisioned in 2008 (billion USD)	Provision / net income (%)
	FNMA FHLMC	Sub-prime	MBS	Lehman Brothers bond	Sub-total			
BOC	6.2	3.3	5.7	0.0	15.2	1.6	2.1	24.0
CCB	17.4	0.2	0.0	0.2	17.8	1.7	0.9	7.0
ICBC	1.8	1.2	0.6	0.2	3.7	0.3	1.4	10.2
CITIC	1.2	0.0	0.0	0.0	1.2	0.8	0.1	6.0
CMB	0.0	0.0	0.0	0.0	0.0	0.0	0.1	2.8
Total	26.6	4.7	6.3	0.4	38.0		4.5	

# impacts on Asia

## financial market influence (4)

### Investment situation in international financial institutions of China

Timing	Company	Investment target	Amount	Expected loss
2007/5	China Investment Corp.	Around 10% stock in Blackstone	3 billion USD	2.1 billion USD
2007/7	China Development Bank	Barclays (U.K.)	1.5 billion pound	1.1 billion pound
2007/10	Industrial and Commercial Bank of China	20% stock in Standard Bank of South Africa	5.5 billion USD	2.1 billion USD
2007/11	China Investment Corp.	Convertible Bond of Morgan Stanley	5 billion USD	3.8 billion USD
2007/12	China Minsheng Bank	United Commercial Bank (U.S.)	0.7 billion USD	0.5 billion USD
2008/6	Ping An Insurance of China	Fortis (Belgium)	23.8 billion Euro	22.3 billion Euro

# Lessons on Asia (1)

## Globalization couldn't be reversed

- Global economic crisis impacts more seriously on countries which are more globalized.
  - ✓ NIAEs and Japan.
- Could we blame global economic crisis for globalization?
- However, globalization has contributions to Asia.
  - ✓ China economic growth increased significantly after joining WTO in 2001.

# Lessons on Asia (1)

## Globalization couldn't be Reversed(2)

- From the experience of Great Depression in 1930s, globalization couldn't be rejected.
- Announcement from G20 summit also declared against protectionism.
- Instead, Asia should maintain globalization strategy. Moreover, Asian countries have to strengthen their internal demand concurrently.
  - ✓China and Taiwan implement huge amount of fiscal stimulus.

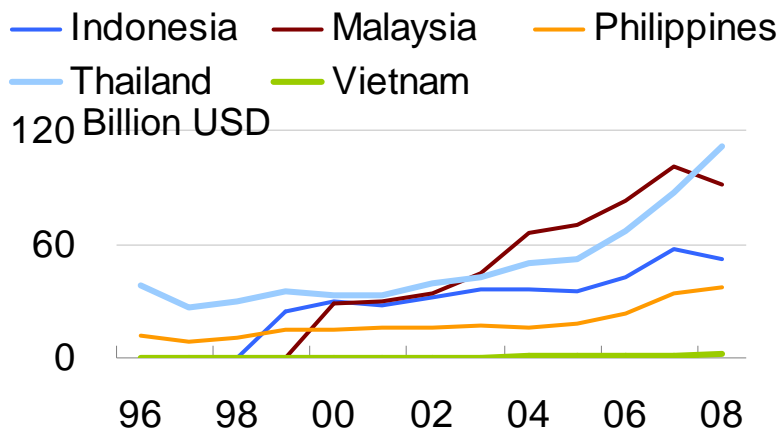
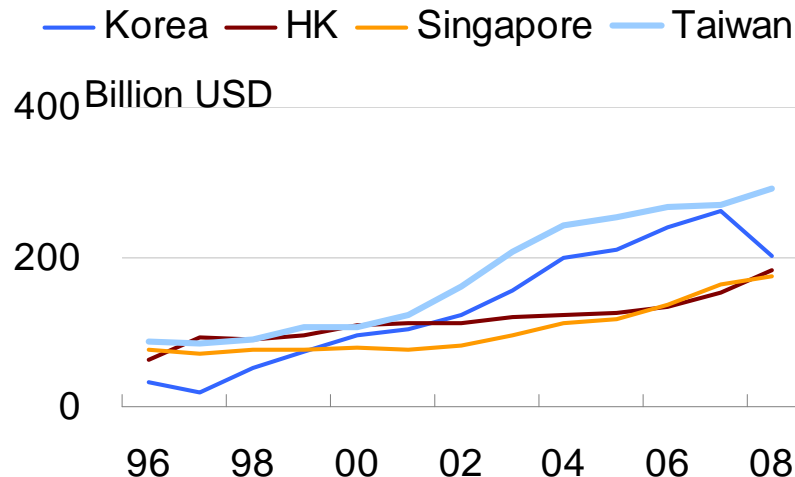
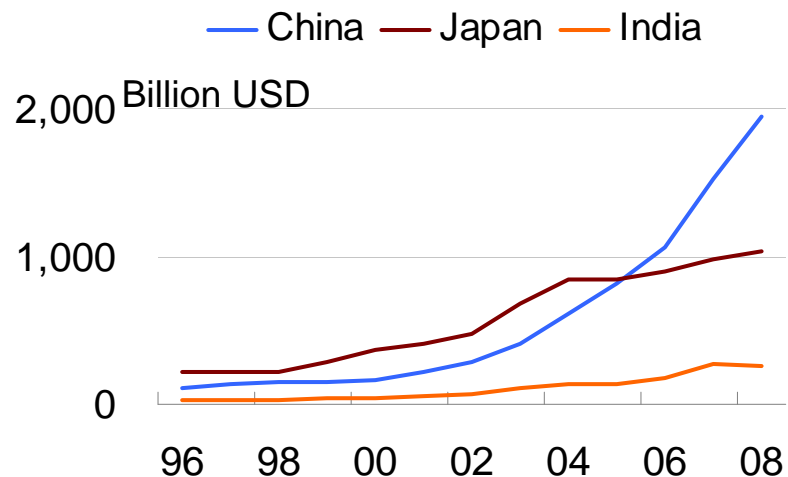
# Lessons on Asia (2)

## Wealth Management becomes More Important after Financial Crisis

- Countries which are more globalized incurred higher loss from this economic crisis.
- Asian countries' foreign reserves are ranked relatively high in the world, thus they still have the ability to bear the loss.
- In addition to high foreign reserves, Asian countries' saving rate is also high. Private wealth also underwent loss.
- How to manage sovereign and private wealth and their risks in Asian countries becomes an extremely important issue afterwards.

# Lessons on Asia (2)

## Foreign Reserves



■ High foreign reserves in Asian countries.

# Lessons on Asia (3)

## Improve Financial Development

- The impacts of this global financial crisis is very similar to that of Asian financial crisis in 1997.
- Although direct impacts on the Asian financial system is not so severe, it still brings about damage indirectly.
  - ✓ Foreign debt of Korea is relatively high compared to other Asian countries; this makes it more vulnerable.
- Asian countries agreed with Chiang Mai Initiative Multilateralisation after 1997 Asian financial crisis, however, this facility doesn't function well.
  - ✓ Korea has bilateral swap agreement with the U.S. and China.
- Financial development in Asian countries is still laggard. It is essential to develop their own financial market in Asia so they could hold their own savings at home.

# Lessons on Asia (4)

## Industry Restructuring

- Asian countries depend on export growth heavily, which is the main reason that GDP in these countries contract considerably. Thus, they have to enlarge their internal demand.
  - ✓ Asian countries should reverse the economic growth strategy by exporting less goods and capital.
- It is essential that Asian countries have to change their industrial structure, including longer-term growth of GDP, investment, employment and potential growth rates.



# Lessons on Asia (4)

## Industry Restructuring (2)

- What would be the implication of the current crisis to the composition of industry. Shifts in expected export demand growth after this crisis may affect the composition of industries within manufacturing.
  - ✓ Biotech, energy, and environmental industries might become strategic industries.
- Service industry development would be more important afterward.
  - ✓ Employers should adjust employees' wage and salary level gradually, so that the GDP sales of service industry could increase.